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**DEPARTMENT OF STATE REVENUE**  
**Information Bulletin #27**  
**Income Tax**  
**May 2008**  
**(Replaces Information Bulletin # 27, Dated January 2003)**

**DISCLAIMER:** Information Bulletins are intended to provide nontechnical assistance to the general public. Every attempt is made to provide information that is consistent with the appropriate statutes, rules, and court decisions. Any information that is inconsistent with the law, regulations, or court decisions is not binding on either the Department or the taxpayer. Therefore, information provided in this Bulletin should only serve as a foundation for further investigation and study of the current law and procedures related to its subject matter.

**SUBJECT:** Indiana Adjusted Gross Income Tax Applicable to Military Personnel

**REFERENCE:** [IC 6-3-1-2.5](#); [IC 6-3-1-2.7](#); [IC 6-3-1-3.5](#); [IC 6-3-1-34](#); [IC 6-3-2-4](#)

**EFFECTIVE DATE:** The increased military service pay deduction and the deduction for certain military income received by a member of the reserves or National Guard is effective for compensation received on or after January 1, 2008.

**INTRODUCTION:**

**Regular Members of the Armed Forces:**

Indiana adjusted gross income tax applies to members of the armed forces of the United States, which includes the Army, Air Force, Marines, Navy, Coast Guard, Air National Guard, National Guard, and Navy Merchant Marines. Indiana resident regular members of the armed forces are taxable on all income, regardless of source. Nonresident regular members of the armed forces are taxable on all nonmilitary income received from Indiana sources.

**Reserve Components and National Guard:**

A member of a reserve component of the armed forces or a member of the National Guard is allowed a deduction from adjusted gross income for service as a result of service on involuntary orders or when the person is deployed or mobilized for full time service, or during the period for which the member's National Guard unit is federalized.

**I. RESIDENCY**

Military personnel who enter the armed forces as Indiana residents remain legal residents of Indiana regardless of duty station until official action is taken to change their legal residence. This can be accomplished by filing a State of Legal Residence Certificate, Form DD 2058, with the military personnel office.

**II. FILING REQUIREMENTS**

Resident military personnel are required to file an Indiana income tax return if their gross income exceeds their exemptions. Income from all sources, both military and nonmilitary (excluding military combat zone compensation), should be reported on the Indiana resident return Form IT-40.

Nonresident military personnel are required to file an Indiana income tax return if they receive any income from an Indiana source. Military earnings for active duty are not considered to be from an Indiana source; however, other compensation for part-time employment would be attributable to Indiana. Nonresident servicemen should file an Indiana part-year or nonresident return, Form IT-40PNR to report their other compensation.

Military personnel may be subject to tax by both their state of legal residence and the state in which they are stationed if they have nonmilitary earnings. Persons with income subject to tax by two states are allowed a credit in one state for tax paid to the other state. Information Bulletin #28 provides additional information for taxpayers with income subject to tax by two states.

**III. DEDUCTIONS AVAILABLE TO INDIANA RESIDENTS FOR MILITARY SERVICE**

Military personnel on active duty or in the active reserves may deduct up to \$5,000 of their military pay if it was not already excluded or deducted from adjusted gross income. If they earned less than \$5,000 military pay, they may deduct only the amount of military pay they earned. If the taxpayer and spouse are both in the military, they each may claim the deduction.

Military retirement pay received by an Indiana resident is taxable in the same manner that it is for federal tax purposes. An individual, or an individual's surviving spouse, is allowed an adjustment of up to \$5,000 for retirement pay or survivor's benefits received as a result of the individual's active or reserve service in the armed forces, provided that the individual, or the individual's surviving spouse, is at least 60 years of age. The individual

need not have been an Indiana resident during active military service to qualify for this adjustment.

Military withholding statements or retirement survivor's benefits statements must be attached to the tax return when these deductions are claimed.

#### **IV. COUNTY INCOME TAXES**

A large majority of Indiana counties have adopted one (or a combination) of the three local option income taxes. They include the (1) County Adjusted Gross Income Tax (CAGIT), (2) County Option Income Tax (COIT), and (3) County Economic Development Income Tax (CEDIT). The tax is imposed on residents of adopting counties, and residents of non-adopting counties that work in an adopting county. A list of the adopting counties and their rates are contained in the Individual income tax booklets IT-40, and IT-40PNR.

Resident military personnel are subject to a local option income tax if, on January 1 of the tax year, their county of residence is a county which has adopted a local option income tax. However, a resident military person who maintains a household outside the state of Indiana is not subject to a county tax.

The income of a nonresident military person's spouse may be subject to county tax if, on January 1 of the tax year, the spouse's legal residence or principal place of work activity was in an Indiana adopting county.

#### **V. ESTIMATED TAX**

A military person who expects to owe \$1,000 or more in state and/or county income tax may be required to make estimated installment payments. Generally, the military will withhold Indiana state income tax from military earnings of resident military personnel in an amount sufficient to avoid estimated tax payments on military earnings. However, county tax is not withheld. Other types of income not subject to withholding of tax could result in an amount due of \$1,000 or more of state and/or county tax due for the year.

A taxpayer may be subject to a penalty for underpayment of estimated tax if they do not make the required estimated payments. To establish an estimated account, the first payment must be made. A coupon booklet will be issued for the remaining installment periods.

For further information concerning estimated tax, see Income Tax Information Bulletin #3.

#### **VI. DUE DATES AND EXTENSION OF TIME FOR FILING**

Indiana individual income tax returns are due on or before April 15 of the year following the tax year. Military personnel on active duty outside of the U.S. and Puerto Rico will be allowed an automatic sixty (60) day extension. A statement must be attached to the return verifying that the taxpayer was outside the U.S. or Puerto Rico on April 15.

Military personnel serving in a combat zone have an automatic extension of 180 days after they leave the combat zone. If they are hospitalized outside the United States as a result of such service, the 180 day extension period begins upon release from the hospital. The spouse of such serviceman must use the same method of filing for both federal and Indiana income tax returns. If filing under this extension, write "Combat Zone" across the top of the form before submitting the form to the Department for processing.

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Commissioner

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